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SUBJECT: TURKEY'S WINTER GAS WOES AND MEASURES

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¶1. (SBU) SUMMARY: Occurring each winter at Turkey's peak need, the Iranian announcement January 3 that it had to stop natural gas exports to Turkey in order to meet its own requirements was not unexpected. Turkey had already embarked on compensating measures after Iran's initial December reduction, including augmenting gas storage, increasing shipments from Russia, and spot LNG purchases, but these sources will be very expensive. In addition, BOTAS announced that some industrial users may face gas cuts. Covering its winter natural gas requirement will be a challenge for Turkey given unreliability of Iran as a source and given delays in Azerbaijan Shah Deniz gas. End Summary.

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Iran Cuts Gas to Turkey - Again  
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¶2. (SBU) Citing "internal problems" and domestic shortage of gas, Iran announced it cut gas exports to Turkey to zero as of January 3. Iranian Oil Minister Hamaneh reportedly apologized to Turkish Energy Minister Guler before official notification, and promised to resolve the problem in the shortest time possible. This news came as no surprise, since Iran is a notoriously unreliable supplier. Already, on December 14 Iran announced reduction of its daily supply of natural gas to Turkey to 7 million cubic meters. Turkey normally expects 20-22 million cm per day from Iran in the winter. Turkey could receive as high as 27-29million cm per day under its 10 billion cm(BCM) annual contract. In reality, Turkey receives about half the contractual capacity on an annual basis. Whereas in previous years Iran reduced its flows to as low as 5 million cm per day during the coldest periods, the cut to zero was unprecedented.

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Measures to Augment Gas Supply  
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¶3. (SBU) In expectation of a difficult winter, the Energy Ministry and BOTAS had already undertaken significant measures to prevent a gas crisis. In response to Russian offers to fill the gap from the December Iranian gas cut, BOTAS reportedly increased gas purchases from the Blue Stream and the Russia-West lines. The daily flow through Russia-West went up to 47 million cubic meters from 42 million and the flow through Blue Stream increased to 37 million cubic meters from 28 million cm. BOTAS also increased LNG purchases, and is now using the Egegaz LNG storage facility in Aliaga. Press reports indicated that the Energy Ministry was disappointed about delays in commissioning the new Silivri Marmara gas storage facility.

14. (U) In a press statement on January 4, Energy Minister Guler claimed that the GOT was taking adequate measures to prevent gas shortages. HE explained the efforts to increase gas imports from Russia and LNG imports from Nigeria and Algeria. Guler stressed the importance of the recent LNG storage service contract BOTAS signed with private sector facility Egegaz. Guler refused to comment on the compensation Turkey would demand from Iran, noting the arbitration case between the two countries continued. As supplementary measures, BOTAS announced that some industrial users that generate their own electricity ("auto-producers") would not receive natural gas, but Minister Guler chose to deemphasize this measure, assuring there would be "no gas cuts for homes and industry".

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Comment - Keeping the Gas Flowing  
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15. (SBU) Even without the Iran cut-off and delay in Shah Deniz deliveries, Turkey was set for a difficult gas crunch this winter. BP (see below) estimates Turkey's potential daily peak winter gas demand at 137 million cubic meters and identifies likely sources of only 115 million, but its figures need further discounting for Iran (unreliable), Azerbaijan (delayed), and Marmara storage (delayed). It will be a challenge for Turkey to fill the gap with Russian and LNG given questions of cost, availability, and technical limitations and/or to significantly reduce provision to industrial users and power plants. Turkey remains significantly dependent on imported natural gas for 32% of its electricity production and for municipal heating. Even with some new potential production in the western Black Sea (with American Toreador Co.), Turkey's domestic gas production is nearly nil.

16. (SBU) The Turks saw this coming. In fact, they are not as bad off as last year, when the Ukraine crisis put Russian supplies in

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doubt. Russia has capitalized on the problems with Iran (and Azerbaijan) supply, by stepping up as the reliable (if at a high price) supplier. Concern about angering its key supplier (65+% of supply) has colored Turkey's approach to gas transit to Europe and negotiations for help to Georgia (now mooted in the short term because of delays in Shah Deniz gas). Gas supply and gas prices are highly politicized, front page issues, especially in this election year. The government has avoided passing cost increases on to consumers that would moderate demand growth.

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Turkey's Winter 2007 Gas Balance  
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17. (SBU)

Daily Demand  
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Power Generation (peak)	57 mcm
Industry	20
Home Heating	60
Total Demand	137 mcm

Daily Supply  
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	Maximum Capacity -----	Probable Supply -----
Marmara LNG	22 mcm	17 mcm
Domestic	2	1
Russia-West	42	39
Blue Stream	30	29
Iran	28	15
Shah Deniz	8	9
Silivri Storage	10	9

Aliaga storage	12	5
Total Supply	155 mcm	115 mcm

Note: Estimates provided by BP, not for use outside USG.

McEldowney